

Top glove corporation berhad analysis



Globalization opens new opportunities to every one of us. At the same time, it intensifies the challenges before us. This report begins by introducing globalization and the rise of the multinational corporation. Subsequently, it would discuss the benefits and indentify the challenges that the selected company (Top Glove Corporation Ltd) encountered when doing business internationally. This multinational company is the world's largest rubber glove manufacturer operates in three principal geographical areas of the world. It will conclude by presenting a brief consideration for a multinational corporation in operating business abroad.

A multinational corporation is refers to any business that has productive activities in two or more countries. Typically, a multinational corporation develops new products in its home country and manufacturers them abroad. An international trade is refers to an exchange of goods and services with foreign countries. The falling barriers to cross-border trade made it easier for today's firms to sell internationally. Still, foreign direct investment (FDI) is when a firm making a physical investment into building a new factory to produce or market a product in another country.

During the 1920s and 30s, various trade barriers raised by world's nation government have contributed to the Great Depression of the 1930s (Hill, 2009, p. 11). However, the emergence of global institutions such as GATT (General Agreement on Tariffs and Trade) and WTO (World Trade Organization) has successfully lowering the trade and investment barriers between countries and enabled more companies involved in international trade and investment.

Besides, technological, market, cost and competitive factors had contributed to the growth of globalization. Many opportunities had produced in an international business. A multinational company can expand its revenues by selling products and services worldwide by producing in nations where key operation costs such as labor, are cheap.

As markets globalize, organizations increasingly engage in cross-broader trade and investments indicating that managers need to recognize that the task of managing an international business is differs from that of managing a purely domestic business in many ways. In international settings, manager in a multinational company is confronted with a range of issues that the manager in pure domestic business that would never confronts. Countries differences in political systems, economic systems, culture, legal systems pose a challenge to the manager because these differences require the manager to vary its practices country by country.

Corporate Profile

Top Glove was established and founded by the husband and wife team of Dr. Lim Wee Chai and Mrs. Tong Siew Bee in year 1991. Dr. Lim Wee Chai was appointed as the Chairman of Top Glove Corporation Ltd on 4 September 2000; he has more than 20 years of experience in the rubber and latex manufacturing business. Co-founder Mrs. Tong Siew Bee was appointed as an Executive Director of Top Glove on 4 September 2000, she has more than 10 years experience in the information technology field.

The history of Top Glove stretches back 18 years when Dr. Lim brings a wealth of experience in the marketing of consumer products whilst he was

the Sales Manager of a subsidiary company OYL Industries Ltd to set up Top Glove Pte Ltd in 1991. In spite of his first own glove manufacturing and trading business with only three production lines, the manufacture has gone through many changes in its corporate direction, the company survived through chaotic times during the Asian financial crisis in 1997 to 1998. The company was successfully listed in the Kuala Lumpur Stock Exchange in year 2001. In a short span of slightly more than a year, Top Glove Corporation Ltd's listing has been successfully promoted from the Second Board to the Main Board of the Kuala Lumpur Stock Exchange on May 16, 2002.

Since its inception in Malaysia in 1991, Top Glove had evoked from 1 factory in 1991 with 3 production lines to 20 factories in 3 countries and expanded this business to be the world's largest rubber glove manufacturer. There are 14 factories in Malaysia, 2 factories in China, 2 glove manufacturing factories and 2 latex concentration plants in Thailand. With 379 glove production lines, Top Glove has a huge production capacity of over 33 billion pieces per annum.

Today, Top Glove's customers consist of glove importers and distributors from all over the world, mainly from the U. S. and Europe. The company has comprehensive range of top quality products such as Latex Examination Gloves(powdered and powder-free), Latex Examination Gloves(Powder free), Colored and Flavored (Mint)Gloves, Soft Nitrile Gloves, Surgical Gloves, Vinyl Gloves, Household Gloves, Polyethylene(PE) gloves, Stretchy Vinyl Gloves, Clean room Gloves, and Polyethylene(PE) Aprons. These top quality products used in variety industry such as medical, food and services, dental, automotive, electronic and laboratory sectors.

Top Glove has a market capitalization of RM3.7 billion as at 31 August 2010. The corporation posted a sales revenue of RM2.08 billion in FYE2010, it was an increase of 36% from RM1.53 billion last year while profit after tax of RM250 million rose 49% from RM168 million. (Top Glove, Annual Report 2010).

The company continuously invests in R&D and collaborates with Rubber Research Institute (RRI) and the Malaysian Rubber Board (MRB), Top Glove is at the forefront of new development in rubber research technology. The upgrading and collaborations of R&D is to enable Top Glove to be a world class of cost effective producer with the most extensive range of premium quality glove products.

Benefits

As a result of the falling barriers to the free flows of goods and services, declining telecommunications and transportation costs, the volume of cross broader trade and investment has been growing rapidly indicating that there are many companies go global. All these factors made it easier for companies to invest abroad and resulted the growth of multinational companies. This section is to elaborate possible benefits that Top Glove acquires while venturing abroad.

Benefits of Globalize Production

According to Hill (2009, p. 7), “ the globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land and capital).” By doing this, a

multinational company would be able to lower down overall cost structure and improve the quality of its products offering.

According to Mr. Lim Cheong Guan (Executive Director of Top Glove Corp), he said that foreign workers account for about 50 to 60 percent of the group's total workers. Although the cost of hiring foreign workers slightly higher, it is not significant as it can be offset by improvement productivity through the huge base of workers (Top Glove, 2010). For example, when setting up plants abroad particularly in China, the large young and literate labor force available in China provides more choices for the company to recruit the skilled labors that are inaccessible in Malaysia. Thus, with this characteristic, the production in China can be enlarged in a low cost manner.

Furthermore, lower land acquisition cost coupled with lower administrative cost grants Top Glove operate its business economically and desirable in the host country. On top of that, having factories in foreign market (e. g. Top Glove (Zhangjiagang) Co. Ltd in China and Great Glove (Thailand) Co., Ltd in Thailand) would enable the company to realize location economy because the high transportation costs can be avoided and it is more preferable for the company to distribute its products within the country besides than exporting.

Expand Sales and Income

Globalization can provide Top Glove a new source of income. As a multinational corporation, apart from serving the local needs, the firm can also enjoy the sales from the overseas business. For example, Top Glove has more than 900 customers and its products are exported to more than 180 countries. Based on the company website, most of its products cater for

export market, sales revenue mainly from Europe 33%, North America 29%, Latin America 20% and Rest of the World 18%. Therefore, the overall business profit can be multiplied through the increasing revenues outside of the home country.

International Diversification

As mentioned earlier, Top Glove's has a wide export markets. Thus, as the company diversifies its market, it becomes less vulnerable to the changes in local demand. In other words, it spread risk by avoiding having all eggs in a single basket. For instance, in the case of local market goes saturated or other factor such as interest rate raised by local government, when operating in such a huge market can insure Top Glove against such risks.

According to Shapiro and Sarin (2009, p. 19-20), the foreign cash flows generally are not perfectly correlated with those of domestic investments, the greater riskiness of individual projects overseas can well be offset by beneficial portfolio effects. This has meant that a multinational company like Top Glove would be able to reduce taxes and avoid tight currency control through foreign direct investment having relied on the existence of financial market imperfections. " We have better profit, good cash flow and a very healthy balance sheet" said by Chairman Dr. Lim Wee Chai in an interview (Porter and Li, 2010). This also implies that the greater cash flow would enable the corporation to acquire potential business or to pay out dividends to its shareholders.

Competitive Advantages

With regards to the glove industry manufacturers like Kossan Rubber Industries Berhad, Supermax Corporation Bhd, Hartalega Holdings Berhad are the major competitors in the local market. However, operate business globally can aid in minimizing such competitive risks. For example, when profits made by the export sales can be used to upgrade or strengthen the domestic business toward less vulnerable on local competition.

Challenges

This paper does not focus solely on the benefits of doing international business but also addresses concerns about the challenges that Top Glove have experienced when venturing abroad. These challenges are thus discussed in depth in this section.

Difficulty in International Management

Based on the company website, currently Top Glove has 20 factories in 3 geographical areas include Malaysia, China and Thailand with a total number of 10, 900 employees. However, its size could also work against its favour as it is more difficult for the management to keep a close eye on all its operations. Most importantly, the differences levels of economic development and legal system among countries complicated the staffing and compensation activities.

According to Lane (2009), most countries have an official language, a single basic legal system, a system of government, yet these practices and relationship are often different from those in the country next door. Country is thus a very important type of culture to account for an international

business. For example, the journey in the ventured countries not smooth as Top Glove had to deal with different cultures and mindsets, particularly in China with its ever-changing policies.

Latex Output and Price Fluctuations

For any manufacturers, raw materials are the main concerned. Based on the annual report 2010, raw material like latex is the major costs components of glove products. They were concern over high raw material cost as the latex prices remained at a high of more than RM8 per kg. The crude oil price movement and speculation are the factors that make latex price fluctuate irregularly. Moreover, the output of latex may be shrunk due to weather impact. The varying on latex output may affect the gloves production. Thus, latex price volatility will affect the corporation's costs and margins, and there will be time lag on passing on the gloves to customers in different geographical areas when shortage of latex.

Competitors

As mentioned earlier, Top Glove is facing several major local competitors within the glove industry. In global marketplace, the company is also facing with numerous global competitors such as Kimberly-Clark Corporation (U. S.), Ansell Ltd (Australia), Allfun Enterprise Co., Ltd. (China) and many others. These manufacturers are thus geared towards increasing capacity and offering gloves at the lower prices. Therefore, the domestic competition coupled with global competition result in difficulty in securing orders from overseas markets.

Environmental Issues

Another challenge is where all operation decisions have some kind of environmental impact. The addition of chemicals in latex compounding, discharge of residual latex containing toxic chemicals and disposal of rejected gloves i. e. not meeting product specifications are the headstream of generating waste materials. These waste materials resulted water pollution, health-related problems for workers and local community. The environmental issues not only challenge the local operation, but also a tough issue when producing gloves in overseas such as in China and Thailand. As a result, the manufacturer is looking ways in reducing and minimizing wastes.

Currency Exposure

Top glove's main income came from its export sales and all its exports are denominated in U. S. dollar. The reporting currency for the company is the Malaysian Ringgit (MYR). In fact, MYR was actually strengthening against the dollar throughout the year 2010. This may put the company in an unfavourable position as the profits would be contracted when converted from U. S. dollar to RM. According to Top Glove's executive director Lim Cheong Guan, he said that the weakening US dollar hurt the company financial results; the company has incurred forex losses totaling RM21 million in FY10 (" Top Glove," 2010). This is such a challenge to the corporation to grow at the rate they have been growing in past few years. Moreover, currency fluctuation can impact competitive positions, product prices, payable and receivable and ultimately the value of the firm itself.

Conclusion

Discussion above has revealed that benefits and challenges are associated with doing business internationally. According to a research done by Foong (2010), Malaysia produces 65% of the world's latex gloves. Top Glove is in the leading position in the industry with 23% global market share. This was the contributions from its wide range of product offering coupled with export markets. It also indicates that Top Glove's management team truly understands that most of the markets opportunities are outside of the home country, thus only doing business internationally can provide growth opportunities and allow firms to receive substantial sales and income.

It can be seen that the firm mainly rely on exporting entry mode into foreign market although has few factories in overseas. Generally speaking, export may help the firm to experience economic of scale and avoid substantial costs of establishing manufacturing operations in the host country. By producing in a large volume and exporting to other national markets may enable the firm to realize substantial economies from its global sales volume. However, it is believed that its exporting has pitfall too. High transportation costs are associated when its products are exported over a long distance such as Latin America, Europe, and Africa. Additionally, abrupt trade policy such as tariffs imposed by host government may prevent international trade which is very risky to the company as well. Managers within international business must develop strategies and policies for dealing with such interventions.

As stated in the annual report, Top Glove has a great cash flow. Hence, it would be good for the company to make a merger and acquisition (M&A) as <https://assignbuster.com/top-glove-corporation-berhad-analysis/>

it gives immediate access to trained labor force, existing customers and an immediate source of revenue. This requires the international manager to conduct a detailed research otherwise a bad acquisition can be costly.

In addition, it can be seen that Top Glove is confronting with quite a number of challenges. It is quite challenging when managing a large number of workforces. Managers in Top Glove have to decide how to staff key management post in the company, how to develop managers so that they are familiar with the subtle differences of when they are based in different countries, and how to compensate people as to retain highly skilled labors.

After all, managing a global business is not that easy, it requires manager to see things globally, that is, see the bigger and broader picture by constantly scanning the geographical horizon to learn more about potential markets, competitors as well as technological changes. In a nutshell, a multinational company in complex international settings not only overcoming challenges; but should always prepared for market opportunities.

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